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IN THE

# Supreme Court of the United States

ELK CORPORATION OF DALLAS,

*Petitioner,*

—v.—

GAF BUILDING MATERIALS CORPORATION, BUILDING MATERIALS CORPORATION OF AMERICA, BUILDING MATERIALS CORPORATION OF AMERICA d/b/a GAF MATERIALS CORPORATION, and GAF MATERIALS CORPORATION,

*Respondents.*

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

## PETITION FOR A WRIT OF CERTIORARI

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## QUESTION PRESENTED

In "inequitable conduct" cases where an accused infringer seeks to render a patent unenforceable on the ground that the applicant failed to disclose material information to the U.S. Patent and Trademark Office ("PTO"), is the legal standard for determining materiality the "*prima facie* case of unpatentability" standard set forth in the rules of the PTO since 1992, or the "important to a reasonable examiner" standard, which was abandoned by the PTO in 1992, but continues to be applied by the U.S. Court of Appeals for the Federal Circuit?

## PARTIES TO THE PROCEEDING AND RULE 29.6 STATEMENT

The Petitioner is Elk Corporation of Dallas ("Elk"). Elk is a wholly-owned subsidiary of Elcor Corporation. Elcor Corporation has issued shares to the public, and is the only parent, subsidiary or affiliate of Elk Corporation of Dallas to have done so.

The Respondents are GAF Building Materials Corporation, Building Materials Corporation of America, Building Materials Corporation of America d/b/a GAF Materials Corporation, and GAF Materials Corporation (collectively "GAF").

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## PETITION FOR WRIT OF CERTIORARI

Elk Corporation of Dallas ("Elk") respectfully requests that this Court issue a writ of certiorari to review a direct and important conflict between the United States Court of Appeals for the Federal Circuit and the United States Patent and Trademark Office regarding the standard of materiality in inequitable conduct cases.

## OPINIONS BELOW

The opinion of the U.S. Court of Appeals for the Federal Circuit is reported at *Elk Corp. v. GAF Building Materials Corp.*, 168 F.3d 28 (Fed. Cir. 1999) (Appendix A, p. 1a). The opinion of the U.S. District Court for the Northern District of Texas is not reported, but is attached at Appendix B, p. 13a. The district court's Partial Final Judgment pursuant to Fed. R. Civ. P. 54(b) is attached at Appendix C, p. 43a. The district court's "Order Re: Construction of Patent Claims," pursuant to *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996) is not reported, but is attached at Appendix D, p. 45a.

## JURISDICTION

Jurisdiction was proper in the U.S. District Court for the Northern District of Texas pursuant to 28 U.S.C. § 1338(a). The appeal to the U.S. Court of Appeals for the Federal Circuit was timely taken pursuant to the provisions of 28 U.S.C. § 1295. The judgment of the Federal Circuit was entered on February 11, 1999, and the Federal Circuit's order denying Elk's timely petition for rehearing was entered on April 16, 1999 (Appendix E, p. 66a). The jurisdiction of this Court to review the judgment of the Federal Circuit is invoked under 28 U.S.C. § 1254(1).

## REGULATORY PROVISION INVOLVED

This case involves the application of the regulations of the U.S. Patent and Trademark Office set forth at 37 C.F.R. § 1.56 (attached at Appendix F, p. 68a).

## STATEMENT OF THE CASE

On February 8, 1994, Elk sued GAF in the Northern District of Texas for infringing Elk's design patent for a laminated roofing shingle.[1] GAF responded with a counterclaim alleging that Elk's patent was unenforceable because of "inequitable conduct" before the PTO.[2] GAF alleged that, in its patent application to the PTO, Elk had failed to disclose the existence of certain prior art. The required legal

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[1] The patent at issue is Elk's U.S. design patent, Des. 344,144. The patent is entitled "Laminated Shingle," the name by which shingles having a particular type of two-ply construction were known as of the September 16, 1991 filing date of the patent. 37 C.F.R. § 1.153; Manual of Patent Examining Procedure ("MPEP") § 1503.01 (Appendix K, p. 128a). The patent claims the "ornamental design for laminated shingle, as shown and described." As depicted in Figure 1 of Elk's patent (Appendix J, p. 126a) the ornamental design is in the application of three bands or striations of differently colored granules lengthwise along the underlay portion of the laminated shingle. Exposed periodically through the cutouts formed in the overlay portion of the shingle, the striations improve the aesthetics of the shingle and help to create, when the shingle is viewed from a distance, an illusion of depth.

[2] The "inequitable conduct" doctrine was last addressed on the merits by this Court in *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806 (1945). In *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965), this Court resolved the related issue of whether the enforcement of a fraudulently procured patent may violate § 2 of the Sherman Act.

elements of GAF's claim were (1) that the uncited art was "material" to the PTO's issuance of Elk's patent, and (2) that Elk's failure to disclose the prior art was intentional.[3]

At GAF's request, the district court conducted a *Markman* hearing in December 1996 to construe Elk's design patent claim. Subsequently, in February 1997, the court held a hearing and received evidence on GAF's counterclaim of inequitable conduct. The principal ground asserted by GAF was that Elk, in its design patent application, had sought to persuade the PTO that it had invented the entirety of the shingle depicted in its application, rather than the unique design feature of applying three striations of color to the underlay portion of a standard laminated shingle. GAF contended that Elk's motive for not citing a prior art Bettoli patent to the PTO was "ownership fraud" -- that Elk allegedly wanted to hide the fact that the construction of a standard laminated shingle was old, and that its invention was limited to the application of striations of color to a standard laminated shingle.

On September 29, 1997, the district court issued an "Order Re: Construction of Patent Claims," rejecting virtually all of GAF's claim construction arguments, and making several findings that should have been dispositive of the inequitable conduct issue as well.[4] On October 10, 1997, the district court

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[3] *E.g., J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984), *cert. denied*, 474 U.S. 822 (1985).

[4] First, the court found that laminated shingles were well known and widely used in the industry by 1991, before Elk's design patent application was filed. (Appendix D, p. 60a). Second the court found that in an amendment filed in the PTO in September 1993, Elk identified the novel feature of its design as the addition of "three striations rather than modifying the physical

(continued...)

issued an "Order Re: Defendant's Equitable Defenses," addressing the inequitable conduct claim. (Appendix B, p.13a).

In the October 10 Order, the district court acknowledged that, in 1992, the PTO had adopted a new rule governing the duty of disclosure in patent application proceedings, including a new definition of "materiality," and that "Elk's compliance with its duty to disclose all material information must be judged by the standards of the current version of 37 C.F.R. Section 1.56."[5]

The previous version of the PTO Rules, in effect between 1977 and 1992, had stated: "information is material where there is a substantial likelihood that a *reasonable examiner* would consider it important in deciding whether to allow the application to issue as a patent." 37 C.F.R. § 1.56(a) (1977) (emphasis added). In rule making proposals in 1989 and 1991, the PTO abandoned that standard, and eventually adopted the current standard, effective March 16, 1992. 57 Fed. Reg. 2021 (1992).

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[4] (...continued)
structure of the shingles." (*Id.*). Third, the court found that the patent examiner understood that Elk was not claiming to have invented the entire shingle and understood what Elk claimed as the novel feature of the application. (*Id.*). Finally, the court found that the examiner was aware of what Elk claimed as the novel feature of the application even before the filing of the September 1993 amendment. (*Id.*). Each of these findings refutes the alleged "ownership fraud" thereby eliminating any possible motive for intentionally withholding prior art from the PTO.

[5] *Id.* at p. 17a. *See* 37 C.F.R. § 1.56 (1998) (entitled "Duty to disclose information material to patentability.") (Appendix F, p. 68a).

In its Order, the district court recited the definition of materiality set forth in the current version of 37 C.F.R. § 1.56(b), which states that "information is material to patentability when it is not cumulative to information already of record or being made of record in the application, and (i) it establishes, by itself or in combination with other information, a *prima facie* case of unpatentability of a claim . . . . " (Appendix B, pp. 17a-18a). The district court observed that "[t]he duty of candor requires disclosure of any information which would make out a *prima facie* case against the application, irrespective of whether the applicant could ultimately overcome it." (*Id.* at p. 18a).

In the Order, the district court ruled that "GAF's allegation of ownership fraud is without merit" because "the court has previously determined that the design patent claimed only the novel features of a laminated shingle, not the entire shingle." (Appendix B, p. 39a; *see* n.4 *supra*). However, contradicting its own findings in its claim construction decision, and contradicting its rejection of GAF's claim of "ownership fraud," the district court concluded that laminated shingles, as such, were material prior art that was known to the Elk inventors and their patent attorneys and should have been specifically cited to the PTO examiner. (Appendix B, pp. 24a-25a).

In its discussion, the district court noted that Elk had demonstrated the "non-obviousness" of its invention.[6]

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[6] (*Id.* at p. 21a n.5). The test of "obviousness" is codified in 35 U.S.C. § 103(a), which states, in pertinent part: "A patent may not be obtained . . . if the differenees between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been

(continued...)

However, in contradiction of its professed understanding of current Rule 56, the district court, relying on *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1179-1180 (Fed. Cir. 1995), deemed the nonobviousness of Elk's invention irrelevant to the materiality issue before the court. (Appendix B, p. 21a n.5). The district court failed to note that *Molins* was decided under the "important to a reasonable examiner" definition of materiality that the PTO abandoned in 1992, and that the test for materiality in current PTO Rule 56 is "more objective."[7] The test in current PTO Rule 56 is *precisely* whether a claimed invention would be *prima facie* unpatentable over the uncited prior art. A determination of patentability *requires* an assessment of the novelty and non-obviousness of the claimed invention in light of the uncited prior art.

With regard to the element of intent, the district court cited no direct evidence, but relied entirely on inferences drawn from the fact that Elk knew of, but had failed to disclose, the prior art the district court had found to be material. (Appendix B, pp. 33a-34a). Acknowledging that the issue was a "close question," (*Id.*) the district court concluded "that Elk engaged in inequitable conduct by failing to disclose material prior art . . . when Elk knew of this prior art, had knowledge or should have had knowledge of the materiality of the undisclosed prior art, and withheld the prior art with intent to deceive the Patent and Trademark Office." (*Id.* at p. 42a). The district court's entire decision, including its analysis of intent, turns on the

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[6] (...continued)
obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains."

[7] PTO Notice of Final Rulemaking, 57 Fed. Reg. 2024 (1992); Robert L. Baechtold, *I'm Just Wild About Harry*, 20 AIPLA Q.J. 185, 189 (1992).

issue of the materiality of the prior art that Elk allegedly did not disclose.

Because the district court's holding would be dispositive of Elk's patent infringement claims, Elk requested the entry of final judgment on GAF's inequitable conduct counterclaim, pursuant to Fed. R. Civ. P. 54(b), so that Elk could appeal the ruling. On April 17, 1998, the district court made its findings and directed the entry of Partial Final Judgment disposing of that issue. (Appendix C, p. 43a).

On May 14, 1998, pursuant to 28 U.S.C. § 1295(a)(1), Elk filed its Notice of Appeal, seeking review of the district court's Partial Final Judgment in the U.S. Court of Appeals for the Federal Circuit. In their briefs to the Federal Circuit, both parties argued that the issue of materiality was governed by current PTO Rule 56.[8]

On January 5, 1999, the parties presented oral argument to the Federal Circuit. (Unofficial transcript prepared from Federal Circuit audio tape of oral argument, attached at Appendix G, p. 71a). During the argument, when Elk's counsel attempted to explain that, under current PTO Rule 56, the uncited prior art was not material because "it does not together or with something else render the claim unpatentable," the court responded:

> [B]ut that's not the test. The test is whether a competent examiner would have felt that being able to look at this reference was important.

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[8] Although GAF argued that Elk was subject to both the old test and the new test of materiality, neither the district court nor the Federal Circuit adopted that position.

> Not whether it would be dispositive, not whether it was the cause of rejection or allowance, but merely whether it was material enough that he would want to see it.

(*Id.* at p. 81a). At a later point, the court stated: "It's not the dispositive quality, it's just the relevance that controls here." (*Id.* at p. 82a). Finally, the court observed that the "fact finder" in an inequitable conduct case "has to answer the question what would the average examiner find important for purposes of his analysis, objectively determined." (*Id.* at p. 86a).

The Federal Circuit further commented that, where the district court had made findings, "unless you can show us that those findings are really what a fifth grader would call wacked out, I don't see how we can reverse." (*Id.* at p. 83a).

On February 11, 1999, the Federal Circuit issued its opinion affirming the district court's Partial Final Judgment on the inequitable conduct issue. Citing *Molins*, 48 F.3d. at 1179, the Federal Circuit stated: "Information is 'material' when there is a substantial likelihood that a *reasonable examiner* would have considered the information important in deciding whether to allow the application to issue as a patent." (Appendix A, p. 9a) (emphasis added). Because it did not apply the current materiality standard of Rule 56, the Federal Circuit did not go through the required process of construing the invention claimed in Elk's patent and then determining whether the uncited art rendered it *prima facie* unpatentable.

Regarding the element of intent, the Federal Circuit stated: "we have recognized that the more material the omission, the less the degree of intent that must be shown to reach a conclusion of inequitable conduct." (*Id.* at pp. 11a-

12a). Ultimately, the Federal Circuit affirmed the judgment of the district court. (*Id.* at p. 12a).

On February 25, 1999 Elk filed a Petition for Rehearing and Suggestion for Rehearing In Banc, which the Federal Circuit denied without comment on April 16, 1999.[9]

## REASONS FOR GRANTING THE PETITION

Like *Dickinson v. Zurko*, __ U.S. __, 119 S. Ct. 1816 (1999), recently decided by this Court, this case presents a direct conflict between the U.S. Court of Appeals for the Federal Circuit and the U.S. Patent and Trademark Office. In this case, and in others like it, the Federal Circuit has refused to apply the standard of materiality set forth in current PTO Rule 56, which governs the duty of disclosure in patent applications submitted to the PTO. Because the first issue in an inequitable conduct case is whether the applicant failed to disclose, *to the PTO*, information *material* to its patent application, the PTO's definition of what *it* considers to be material, unambiguously set forth in valid regulations, logically should be dispositive. The Federal Circuit disagrees.

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[9] Elk's petition emphasized two errors. First, the Federal Circuit confused the invention of Elk's design patent, known at Elk as the "Striation" shingle in 1991, with a completely different Elk invention that is not at issue in this case, known then at Elk as the "Tuscaloosa T-3" shingle. (*Id.* at p. 6a; *See also* letter to searcher referenced by Federal Circuit distinguishing between the two, Appendix H, p. 112a). Second, the Federal Circuit also misunderstood the prior art. It described a critical cited prior art patent (Morgan) as disclosing a single ply strip shingle. (Appendix A, p. 9a). In fact, as the drawings and abstract of Morgan make clear, the patent describes a two-ply composite laminated shingle, just like the allegedly uncited prior art. (Appendix I, p. 117a).

In this case, in reviewing the critical determination of materiality, the Federal Circuit applied the "important to a reasonable examiner" standard of PTO Rule 56 as it existed prior to 1992. In applying that standard, the Federal Circuit made no mention of the fact that, after fifteen years of experience with the "important to a reasonable examiner" standard, and after several years of very thorough consideration of the competing policy interests affected by the standard, the PTO itself abandoned that standard, and adopted the "*prima facie* case of unpatentability" standard of current PTO Rule 56.[10]

In applying the "important to a reasonable examiner" standard, the Federal Circuit also ignored the facts that (1) both parties had argued the current standard to the district court; (2) the district court expressly referred to the current standard; and (3) both parties had argued the applicability of the new standard in their briefs to the Federal Circuit.

In its opinion, the Federal Circuit never mentioned the current PTO standard at all, notwithstanding the fact that, at oral argument, the panel expressly engaged Elk's counsel in a colloquy about the applicable standard. In view of the very explicit reliance of the parties and the district court on the current "*prima facie* case" standard, it is clear that the Federal Circuit's application of the wrong standard of materiality was

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[10] In adopting the current standard, the PTO stated that it would be applicable to all applications pending on the effective date, March 16, 1992. 57 Fed. Reg. at 2021. The Federal Circuit has acknowledged that the current rule applies to applications pending or filed after March 16, 1992. *Molins*, 48 F.3d at 1179 n.8. It is undisputed that the patent application which resulted in Elk's design patent was pending in the PTO on the effective date, and for nearly two years thereafter, until February 8, 1994.

not an oversight, but was a considered, (although unexplained) choice. In light of the validly promulgated regulations of the PTO, the Federal Circuit was not free to make that choice.

## A. The Federal Circuit May Not Disregard PTO Rule 56.

It is well-established that the rules of the PTO, including particularly Rule 56 concerning required disclosures to the PTO, have the force and effect of law.[11] Where applicable, such rules are "binding upon all persons, and on the courts, to the same extent as a congressional statute."[12]

In cases alleging inequitable conduct, the "conduct" in question is the adequacy of disclosures to the PTO in connection with an application for a patent. In 35 U.S.C. § 6, Congress has delegated to the Commissioner of the PTO the power to "superintend or perform all duties required by law

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[11] *Digital Equipment Corp. v. Diamond*, 653 F.2d 701, 708 (1st Cir. 1981) ("We think there can be no serious doubt, certainly not at this late date, that Rule 56 constitutes in general a valid exercise of the Commissioner's rulemaking powers under 35 U.S.C. § 6, and therefore has the force and effect of law except as it may conflict with other statutory or constitutional provisions."); *Norton v. Curtiss*, 433 F.2d 779, 791 (C.C.P.A. 1970) (construing Patent Office Rule 56 regarding fraud) ("We have long held that such regulations, when not inconsistent with the statutes, have the force and effect of law."); *Piel v. Falkner*, 426 F.2d 412, 415 (C.C.P.A. 1970); ("Patent Office Rules, when not inconsistent with the statutes from which they are derived, have the effect of law."). In *South Corp. v. United States*, 690 F.2d 1368, 1370 (1982) (in banc), the Federal Circuit ruled that the holdings of its predecessor courts, the Court of Customs and Patent Appeals and the Court of Claims, are binding precedent in the Federal Circuit.

[12] *National Latino Media Coalition v. FCC*, 816 F.2d 785, 788 (D.C. Cir. 1987).

respecting the granting and issuing of patents and the registration of trademarks." 35 U.S.C. § 6(a). To carry out those duties, Congress also delegated to the Commissioner the power to "establish regulations, not inconsistent with law, for the conduct of proceedings in the Patent and Trademark Office." *Id.*

Among the different types of "proceedings" before the PTO are proceedings regarding the issuance of patents. Pursuant to its authority under 35 U.S.C. § 6, the PTO has promulgated detailed regulations governing the process that applicants must follow in seeking the issuance of a patent, including regulations defining the information that must be included in the application. The general duty of disclosure is set forth in 37 C.F.R. § 1.56(a), which states: "There is no duty to submit information which is not material to the patentability of any existing claim."

As explained in Part B below, the courts and the PTO have wrestled with the issue of materiality for more than 40 years, and the definition of materiality in current PTO Rule 56 is the product of many years of consideration of the competing policies and interests affected by the Rule. In cases alleging inequitable conduct, where the basic issue is the sufficiency of disclosures to the PTO, the Federal Circuit is not free to ignore the PTO's validly promulgated Rules expressly defining what must be disclosed.[13] It is axiomatic that, after Congress has directly addressed a question, the applicable statutory provisions displace, and preempt, any prior federal "common

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[13] "Because Congress explicitly delegated authority to construe the statute by regulation," the courts must give the regulations "controlling weight." *United States v. Morton*, 467 U.S. 822, 834 (1984); *Schweiker v. Gray Panthers*, 453 U.S. 34, 44 (1981).

law" standards that directly conflict with the federal statute.[14] The same principle applies with respect to standards set forth in federal regulations, because "[f]ederal regulations have no less pre-emptive effect than federal statutes."[15] In this case, because there is a clear conflict between the common law standard developed by the Federal Circuit and the federal regulatory standard promulgated by the PTO, the common law standard must give way.

Apart from the preemption analysis, this Court's prior decisions make clear that the Federal Circuit is not free to substitute its judgment for that of the PTO on the subject of the duty of disclosure in proceedings before the PTO.[16] As this Court concluded in *Chevron, U.S.A., Inc. v. Natural Resources Defense Council*, 467 U.S. 837, 866 (1984), "[t]he responsibilities for assessing the wisdom of such policy choices and resolving the struggle between competing views of the public interest are not judicial ones: 'Our Constitution vests such responsibilities in the political branches.'"[17] The Federal Circuit should be instructed to recognize the controlling effect

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[14] *See Milwaukee v. Illinois*, 451 U.S. 304, 314 (1981); *Northwest Airlines, Inc. v. Transportation Workers Union of Am.*, 451 U.S. 77, 95 n.34 (1981); *Mobil v. Higginbotham*, 436 U.S. 618, 630 (1978).

[15] *Fidelity Fed. Sav. and Loan Ass'n v. de la Cuesta*, 458 U.S. 141, 153 (1982) (federal regulation preempting state common law). *Accord Chrysler Corp. v. Brown*, 441 U.S. 281, 295-96 (1979). *See Milwaukee*, 451 U.S. at 312-323.

[16] *See, e.g., Babbitt v. Sweet Home Chapter of Communities for a Greater Or.*, 515 U.S. 687, 708 (1995); *ABF Freight Sys., Inc. v. N.L.R.B.*, 510 U.S. 317, 324 (1994).

[17] *Accord United States v. Haggar Apparel Co.*, __ U.S. __, __, 119 S. Ct. 1392, 1399 (1999).

of *Chevron*, and should be instructed to apply the materiality standard of PTO Rule 56 in the review of inequitable conduct cases.[18]

## B. Historical Background.[19]

In 1945, at the time of this Court's decision in *Precision Instrument*, no statute or regulation specifically provided for an "inequitable conduct" defense to a claim of patent infringement. In its decision, this Court cited no statutory basis, but found that "perjury and undisclosed knowledge of perjury" had occurred, 324 U.S. at 816, and that those facts "justified dismissal by resort to the unclean hands doctrine." *Id.* at 819.[20]

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[18] *See Haggar*, 119 S. Ct. at 1398-1401 (vacating judgment of Federal Circuit for disregarding customs regulations in violation of *Chevron*.); *INS v. Jong Ha Wang*, 450 U.S. 139, 143 (1981) (vacating judgment of Ninth Circuit for ignoring INS procedural regulation).

[19] A comprehensive discussion of the inequitable conduct defense through 1993 is set forth in Robert J. Goldman, *Evolution of the Inequitable Conduct Defense in Patent Litigation*, 7 Harv. J.L. & Tech. 37 (1993). The inequitable conduct defense has been a fertile ground for scholarly commentary. At least 37 articles, notes or comments have addressed the subject since 1988. In 1988, and again in 1992, the American Intellectual Property Law Association ("AIPLA") published special double issues of the AIPLA Quarterly Journal, comprised exclusively of articles devoted to the subject of the law of inequitable conduct. *See* 16 AIPLA Q.J. 1-286 (1988) & 20 AIPLA Q.J. 1-230 (1992). Collectively, those articles provide a summary of the patent bar's practical and policy concerns with the "important to a reasonable examiner" standard.

[20] At the time, the applicable statute provided a defense to a claim of infringement where the patent application disclosed "less than the whole truth" if the applicant had acted with "the purpose of deceiving the public" or where the patent had been obtained "surreptitiously or unjustly." (continued...)

When the patent laws were revised in 1952, the new statute stated that, in an infringement action, "[t]he following shall be defenses . . . and shall be pleaded: (1) Noninfringement, absence of liability for infringement, or unenforceability . . . ."[21] Neither the statute itself nor the legislative history set out any standards for applying those defenses. The rules of the Patent Office, which had been adopted in 1949, prohibited fraud, but did not reference the concept of inequitable conduct, and did not define what constituted fraud. 37 C.F.R. § 1.56 (1951).

After this Court's decision in *Precision Instrument*, the lower courts attempted to develop standards for applying the inequitable conduct defense. With regard to materiality, different circuits developed different standards. Some courts applied a subjective "but for" test, attempting to decide whether the omissions or misstatements actually influenced the issuance of the patent.[22] In other courts, an objective "but for" test

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[20] (...continued)
Consolidated Patent Act of 1870, Section 61, 16 Stat. 198 (codified as amended at 35 U.S.C. § 69 (1946)).

[21] 66 Stat. 792 (1952) (codified as amended at 35 U.S.C. § 1 *et seq.* (1952)), 35 U.S.C. § 282.

[22] *See, e.g., Waterman-BIC Pen Corp. v. W.A. Sheaffer Pen Co.*, 267 F. Supp. 849, 856 (D. Del. 1966); *Rolls-Royce Ltd., Derby, Eng. v. United States*, 339 F.2d 654, 657 (Ct. Cl. 1964); *Baldwin-Lima-Hamilton Corp. v. Tatnall Measurement Sys. Co.*, 169 F. Supp. 1, 24-25 (E.D. Pa. 1958), *aff'd*, 268 F.2d 395 (3d Cir.), *cert. denied*, 361 U.S. 894 (1959); *Martin v. Ford Alexander Corp.*, 160 F. Supp. 670, 685 (S.D. Cal. 1958); *Foundry Equip. Co. v. Carl-Mayer Corp.*, 128 F. Supp. 640, 641 (N.D. Ohio 1955), *aff'd*, 233 F.2d 179 (6th Cir. 1956); *Marks v. Polaroid Corp.*, 129 F. Supp. 243, 268 (D. Mass. 1955), *aff'd*, 237 F.2d 428 (1st Cir. 1956), *cert. denied*, 352
(continued...)

developed, under which undisclosed information would be material if its disclosure would have precluded issuance of the patent.[23] Subsequently, a third standard for determining materiality evolved, holding that information could be material, if it *may have* had an impact on the issuance of the patent.[24] In 1976, the Commissioner of Patents and Trademarks issued an opinion adopting the latter standard of materiality for disclosures to the Patent Office.[25]

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[22] (...continued)
U.S. 1005 (1957).

[23] *See, e.g., Wen Prods., Inc. v. Portable Elec. Tools, Inc.*, 367 F.2d 764, 767 (7th Cir. 1966); *Admiral Corp. v. Zenith Radio Corp.*, 296 F.2d 708, 716-17 (10th Cir. 1961); *Ransburg Electro-Coating Corp. v. Nordson Corp.*, 293 F. Supp. 448, 484 (N.D. Ill. 1968); *Tractor Supply Co. v. Int'l Harvester Co.*, 155 U.S.P.Q. 420, 434 (N.D. Ill. 1967), *modified*, 406 F.2d 53 (7th Cir. 1968); *United States v. Standard Elec. Time Co.*, 155 F. Supp. 949, 952-53 (D. Mass. 1957); *Corning Glass Works v. Anchor Hocking Glass Corp.*, 253 F. Supp. 461, 469 (D. Del. 1966), *aff'd in part, rev'd in part*, 374 F.2d 473 (3rd Cir.), *cert. denied*, 389 U.S. 826 (1967).

[24] *See, e.g., Warner-Jenkinson Co. v. Allied Chem. Corp.*, 477 F. Supp. 371, 396 (S.D.N.Y. 1979), *aff'd mem.*, 633 F.2d 208 (2d Cir. 1980); *Grayhill, Inc. v. AMF, Inc.*, 203 U.S.P.Q. 745, 773 (D.N.J. 1978), *aff'd*, 591 F.2d 1335 (3d Cir.), *cert. denied*, 442 U.S. 930 (1979); *CPC Int'l, Inc. v. Standard Brands, Inc.*, 385 F. Supp. 1057, 1069 (D. Del. 1974); *SCM Corp. v. Radio Corp. of America*, 318 F. Supp. 433, 449-50 (S.D.N.Y. 1970).

[25] *See In re Altenpohl*, 198 U.S.P.Q. 289, 310 (Comm'r. Pat. & Trademarks 1976) ("Further, the materiality of the prior art withheld need not necessarily be such that applicant or counsel believed it would render any of the claims unpatentable. It need only be such that the patent might not have issued had full disclosure been made.").

In 1977, the PTO amended Rule 56 to provide a definition of materiality, requiring disclosure of information where "there is a substantial likelihood that a reasonable examiner would consider it important." 37 C.F.R. § 1.56 (1977). In the Notice of Final Rulemaking, the PTO stated that the rule "codifies the existing Office policy on fraud and inequitable conduct, which is believed consistent with the prevailing case law in the federal courts . . . The section should have a stabilizing effect on future decisions in the Office and may afford guidance to courts as well." 42 Fed. Reg. 5588, 5589 (1977). The Notice stated that the 1977 definition of materiality was a paraphrase of the definition of materiality in this Court's decision in *TSC Indus. v. Northway*, 426 U.S. 438 (1976), which dealt with proxy solicitations under the securities laws. *Id.*

In 1982, Congress created the U.S. Court of Appeals for the Federal Circuit, and granted the Federal Circuit exclusive jurisdiction over all appeals in patent cases. 28 U.S.C. § 1295. One of the goals of Congress was to bring uniformity to patent law.[26]

In its early decisions in appeals of inequitable conduct cases, the Federal Circuit recognized that four different standards of materiality existed, but stated: "There is no reason, however, to be bound by any single standard."[27] The Federal

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[26] *See* S. Rep. No. 275 at 5-6 (1982), reprinted in 1982 U.S.C.C.A.N. 11, 15-16; H.R. Rep. No. 312 at 20-23 (1981).

[27] *American Hoist and Derrick Co. v. Sowa and Sons, Inc.*, 725 F.2d 1350, 1363 (Fed. Cir.), *cert. denied*, 469 U.S. 821 (1984). In *American Hoist*, the Federal Circuit observed that there were four different standards of (continued...)

Circuit has never acknowledged the controlling effect of *either* old PTO Rule 56 *or* current Rule 56, but adopted the "important to a reasonable examiner" standard of old PTO Rule 56 as a matter of federal common law, stating: "The PTO 'standard' is an appropriate starting point for any discussion of materiality, for it appears to be the broadest, thus encompassing the others, and because that materiality boundary most closely aligns with how one ought to conduct business with the PTO."[28]

Between 1982 and 1991, due in part at least to the ambiguity of the "important to a reasonable examiner" standard of materiality, there was a substantial increase in the number of cases asserting claims of inequitable conduct. The situation became so bad that the Federal Circuit complained that "the habit of charging inequitable conduct in almost every major patent case has become an absolute plague."[29]

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[27] (...continued)
materiality, and found that, on the facts of that case, it would have been proper to instruct the jury as to *any one* of three of the standards. *Id.* at 1362-1363.

[28] *Id.* at 1363. *Accord Halliburton Corp. v. Schlumberger Tech. Corp.*, 925 F.2d 1435, 1440 (Fed. Cir. 1991); *Argus Chem. Corp. v. Fibre Glass-Evercoat Co.*, 759 F.2d 10, 14 (Fed. Cir.), *cert. denied*, 474 U.S. 903 (1985); *Atlas Powder Co. v. E.I. DuPont de Nemours & Co.*, 750 F.2d 1569, 1578 (Fed. Cir. 1984).

[29] *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988), *quoted in Multiform Desiccants, Inc. v. Medzam, Ltd.*, 133 F.3d 1473, 1482 (Fed. Cir. 1998); *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1182 (Fed. Cir. 1995); *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 876 n.15 (Fed. Cir. 1988) (en banc), *cert. denied*, 490 U.S. 1067 (1989).

In a position paper issued in 1988, the American Intellectual Property Law Association ("AIPLA") criticized the "important to a reasonable examiner" standard of PTO Rule 56, and its implementation by the courts, as creating uncertainty, unpredictability of results, and a proliferation of fraud charges.[30] The AIPLA noted that, in adopting the "important to a reasonable examiner" standard, the PTO had "borrowed" the materiality standard from *TSC Industries*, and observed that while such a standard is appropriate in the context of a proxy solicitation from shareholders under the rules of the Securities and Exchange Commission, "it has little, if anything, to do with prior art information that should be disclosed to an examiner during prosecution of a patent application." *Id.* As the Report explained:

> An examiner in the Patent and Trademark Office is not in the same position as a shareholder who is asked to submit a proxy. The examiner is a skilled government officer who usually is a trained engineer and frequently a lawyer as well. The examiner is charged by law with the duty of examining a patent application in view of the prior art and has available the voluminous collection of prior art in the PTO.

*Id.*

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[30] *The Doctrine Of Inequitable Conduct And The Duty Of Candor In Patent Procurement: Its Current Adverse Impact On The Operation Of The Unite d States Patent System*, 16 AIPLA Q.J. 74, 74-75 (1988) (hereinafter referred to as "AIPLA Report"). The AIPLA estimated that "inequitable conduct is raised as a defense to claims of patent infringement in 80% of the cases before the courts." *Id.*

After tracing the history of Rule 56 and the various standards for materiality, the AIPLA urged the PTO to amend Rule 56 to incorporate the "but for" standard of materiality. *Id.* at 79. As support for the "but for" standard, the AIPLA cited this Court's decision in *Corona Co. v. Dovan Corp.*, 276 U.S. 358 (1928). In *Corona*, in dealing with a claim similar to the modern claim of inequitable conduct, this Court upheld the validity of the patent, holding that "the affidavits, though perhaps reckless, were not the basis for it [the patent grant] or essentially material to its issue." *Id.* at 374.

After the AIPLA Report, an extensive debate took place within the patent bar and in the PTO regarding the materiality standard.[31] In 1989, the PTO issued proposed rules that would have changed the standard of materiality. 54 Fed. Reg. 11,344 (1989). In a new Section 1.57(b), the PTO proposed that applicants be required to disclose all information that "would render unpatentable any pending claim." 54 Fed. Reg. at 11,341. In the Preamble to the Proposed Rules, the PTO noted the responsibilities of candor and good faith, and stated that it believed "these purposes can be accomplished by specifying the threshold level of materiality to conform with an objective 'but for' standard . . . ." *Id.* The PTO observed that "[t]he 'but for' standard of materiality should result in a more predictable duty of disclosure because it is based on a statutory standard of patentability." *Id.*

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[31] *See* Jerome G. Lee, *Introduction: The Special Ad Hoc AIPLA Committee On Rule 56 And The Evolution Of Proposed Rule 57*, 16 AIPLA Q.J. 1 (1988) ("No subject in patent law practice has stimulated more controversy in recent years than the application of Rule 56 by the Patent and Trademark Office . . . and by the courts.")

Subsequently, in 1991, the PTO withdrew the 1989 Proposed Rules, and proposed new amendments. 56 Fed. Reg. 37,321 (1991). In the Preamble to the 1991 Proposed Rules, the PTO stated:

> Proposed § 1.56(b) presents a clearer and more objective definition of the information material to patentability. The current definition, based on what would be important to a reasonable examiner in deciding whether to allow the application to issue as a patent, has been criticized as vague and because it does not correlate with any concept applied in other areas of the patent law. The revised definition is framed in terms of alternative objective criteria that emphasize the direct connection between the disclosure standard and the examination process.

*Id.* at 37,322. The Preamble notes that the proposed rule "would ensure that the *most pertinent* information is considered during the examination by the Office." *Id.* (emphasis added). In explaining the proposed standard, the PTO stated: "For example, if the information establishes that the subject matter of at least one claim . . . *prima facie* would have been obvious to a person of ordinary skill in the art under 35 U.S.C. 103, . . . it must be cited under proposed § 1.56(b)(1)." *Id.* at 37,324.

In 1992, after receiving and considering numerous comments, the PTO issued a Notice of Final Rulemaking, in which it adopted Final Rules amending the standard of materiality. 57 Fed. Reg. 2021 (1992). In response to comments regarding the effective date of the amendments, the PTO stated: "The Office will apply the new rules to

all applications pending on, or filed on or after, the effective date of the rules." *Id.* at 2,033.

In the seven years since that amendment, the Federal Circuit has never once applied the materiality standard set forth in current PTO Rule 56. In at least four cases, including this one, it is clear that the current version of PTO Rule 56 should have been applied, because the patent application at issue was pending after March 16, 1992.[32] However, in all of those cases, the Federal Circuit ignored the "*prima facie* case of unpatentability" standard of current PTO Rule 56, and without any explanation, applied the "important to a reasonable examiner" standard of materiality set forth in old PTO Rule 56.

### C. The Application Of PTO Rule 56 Would Have Changed The Outcome In This Case.

Unlike the "important to a reasonable examiner" standard, the current Rule requires the district court to

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[32] *See Elk*, Appendix B, p. 17a; *Baxter Int'l, Inc. v. McGaw, Inc.*, 149 F.3d 1321 (Fed. Cir. 1998) (applying "important to a reasonable examiner standard" where patent issued on December 15, 1992); *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1257-1258 (Fed. Cir. 1997), *cert. denied*, __ U.S. __, 118 S. Ct. 1510 (1998) (omitting "*prima facie* case of unpatentability" from quotation of current rule and applying "important to a reasonable examiner" standard for reissue patent issued on October 19, 1993); *Leopold Co. Inc. v. Roberts Filter Mfg. Co., Inc.*, 37 U.S.P.Q.2d 1374 (W.D. Pa. 1995) (finding of fact that '427 patent was issued on September 22, 1992), *aff'd*, 119 F.3d 15, 1997 WL 378008, *4 (unpublished table opinion) (Fed. Cir. 1997) (applying "important to a reasonable examiner" standard and failing to mention PTO Rule 56). In cases where the date of issuance of the patent is not stated in the court's opinion, it may be obtained from the patent database at the PTO's website, <http://www.uspto.gov/>.

determine whether the uncited information, by itself or together with other information, establishes a "*prima facie* case of unpatentability."[33] Under that standard, the district court is required to make the determination of materiality *without considering extrinsic evidence*, by comparing the uncited prior art with the claim in the patent at issue. That process is similar to the procedure for claim construction prescribed by this Court in *Markman*. Based solely on the claim and the disclosure in the uncited prior art, and the legal arguments of the parties, the court must then determine whether the uncited prior art would render the claim at issue *prima facie* unpatentable.

In this case, the correct application of the current standard would have changed the outcome. Current Rule 56 requires a determination of whether the *claimed invention* is *prima facie* unpatentable in view of the uncited art. Elk's patent claim reads as follows: "The ornamental design for laminated shingle, as shown and described." (Appendix J, p. 126a). As the district court found in its *Markman* decision, the patent examiner knew that the laminated shingle shown and described in Elk's patent was old and that only the ornamental striations on the underlay portion were new. *See* n. 4 *supra*. Current Rule 56 provides that "information is material to patentability when it is not cumulative to information already of record". Thus, there was no basis for the district court's conclusion that the Bettoli patent was material uncited prior art because Bettoli disclosed the laminated shingle that was already of record in Elk's patent drawings.

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[33] Black's Law Dictionary defines "*prima facie*" as "[a]t first sight; on the first appearance; on the face of it; so far as can be judged from the first disclosure . . . ." Black's Law Dictionary 1189 (6th ed. 1990).

Moreover, on appeal, the application of the correct standard would have required the Federal Circuit to construe the *claimed invention* set forth in Elk's patent. If it had gone through that process, the Federal Circuit would not have confused the invention at issue in this case with a totally separate Elk shingle that was not at issue. (*See* n.9 *supra*).[34]

## D. The Conflict Between The Federal Circuit And The PTO Should Be Resolved.

As explained above, a direct and important conflict exists between the PTO and the Federal Circuit regarding the standard of materiality to be applied in inequitable conduct cases. The conflict is squarely presented in this case, and should be resolved to eliminate the uncertainty caused by the Federal Circuit's position.[35]

The issue is of enormous significance to patent practitioners, and their clients, for several reasons. First, as the Federal Circuit has observed, claims of inequitable conduct are now routinely asserted in most patent infringement cases. Because there will rarely be direct evidence of intent, such claims turn primarily on the court's conclusions regarding

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[34] Had current Rule 56 been applied, the district court and the Federal Circuit also could not have regarded the uncited Giles patent as material because Elk's claimed invention could not be deemed *prima facie* unpatentable in view of it. *See* MPEP § 1504.03, (Appendix K, p. 132a), and the cases cited therein.

[35] *See* 4 Donald S. Chisum, *Chisum on Patents* §11.03 [4][b][v] at 11-180 (1997) ("[A]n issue the courts must resolve is whether the PTO's altered administrative standard should have any influence on the judicially-defined materiality standard.").

materiality, as the district court and Federal Circuit opinions did in this case.[36]

Second, for the patent holder, the consequences of a finding of inequitable conduct are severe. "When a court has finally determined that inequitable conduct occurred in relation to one or more claims during prosecution of the patent application, the entire patent is rendered unenforceable." *Kingsdown*, 863 F.2d at 867.

Third, under the existing body of Federal Circuit precedent, the analysis under the "important to a reasonable examiner" standard is little more than a guess as to what a technically trained examiner, who is also deemed to "have knowledge of the level of skill in the art" in question, would find important in reviewing a patent application, without regard to whether it would have had any impact at all on the patentability of the claimed invention.[37] For practitioners, the

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[36] *See* Appendix G, p. 92a. Under Federal Circuit precedent, "[w]here an applicant or his attorney knew or should have known that a reference was material . . . the failure to disclose the reference is sufficient to establish intent." *A.B. Dick*, 798 F.2d at 1398, *citing J.P. Stevens*, 747 F.2d at 1564 ("[I]ntent is established where an actor in an applicant's position would have reasonably known that the reference was material . . . ."). Although the Federal Circuit in *Kingsdown* stated that "gross negligence" does not compel a finding of intent, it did not expressly address or overrule *A.B. Dick* or *J.P. Stevens*. Subsequently, in *Critikon*, 120 F. 3d at 1256, the Federal Circuit again held that "intent may be inferred where a patent applicant knew, or should have known," that withheld information would be material to the PTO's consideration of the patent application.

[37] Obviously, the best way to determine what a "reasonable examiner" would find material would be to ask the examiner who actually reviewed the patent application. However, "[i]t is the policy of the Patent and Trademark

(continued...)

"important to a reasonable examiner" standard is no standard at all, because the outcome is almost completely unpredictable.[38] Under the standard as it has been applied by the Federal Circuit, the court may find inequitable conduct, and declare the patent unenforceable, even if it is undisputed that the patent examiner

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[37] (...continued)
Office that its employees, including patent examiners, will not appear as witnesses or give testimony in legal proceedings, except under the conditions specified in 15 C.F.R. Part 15, Subpart B," which requires prior authorization from the General Counsel, the Solicitor, or the appropriate agency counsel. MPEP § 1701.01; *see* 15 C.F.R. §§ 15.11-15.18. Further, "[e]mployees are prohibited from giving expert or opinion testimony" and are "prohibited from answering hypothetical or speculative questions." MPEP § 1701.01 (citations omitted). Thus, examiners are not generally called as witnesses in inequitable conduct cases.

[38] *See American Hoist*, 725 F.2d at 1364 ("[W]e recognize that 'fraud in the PTO' is an area of law fraught with confusion and contradiction."). *Compare Halliburton Co. v. Schlumberger Tech. Corp.*, 925 F.2d 1435, 1440 (Fed. Cir. 1991) (no obligation to disclose material prior art patents that are "less material than those already before the examiner") *with Elk*, Appendix B at p. 30a (obligation to disclose prior art without making judgment as to degree of materiality); *compare Kimberly-Clark Corp. v. Johnson & Johnson*, 745 F.2d 1437, 1456 (Fed. Cir. 1984) (finding of inequitable conduct reversed where examiner had cited the same prior art in connection with a different application) *with J.P. Stevens*, 747 F.2d at 1563-64 (fact that examiner could have seen reference to prior art in other applications did not preclude finding inequitable conduct); *compare American Hoist*, 725 F.2d at 1362 ("Of course, as previously noted, fraud, and thus materiality, are relevant only to information that might prevent claims from being allowed.") *with Molins*, 48 F.3d at 1180 (that the claims may be patentable over the withheld prior art is not the test for materiality); *compare Gambro Lundia AB v. Baxter Healthcare Corp.*, 110 F.3d 1573, 1580 (Fed. Cir. 1997) ("A reference which merely replicates references already before the examiner, however, is not material.") *with A.B. Dick Co.*, 798 F.2d at 1397-98 (Fed. Cir. 1986) (prior patent actually considered by the examiner found to be material).

was, in fact, aware of the undisclosed prior art, actually considered the undisclosed prior art, and issued the patent notwithstanding the undisclosed prior art.[39] That is exactly what happened in this case.[40]

Finally, to complicate matters further, the Federal Circuit has also noted that inequitable conduct may be found where the practitioner has disclosed *too much* prior art.[41] Thus, practitioners are faced with the classic "Goldilocks" dilemma -- their disclosures of prior art must be not too little, not too much, but just right.

In view of the potential consequences, the standards for finding inequitable conduct should be very clear.[42] For the

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[39] *See A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392 (Fed. Cir. 1986). The *A.B. Dick* decision "sent tremors of fear through the bar." Harry F. Manbeck, Jr. *The Evolution and Issue of New Rule 56*, 20 AIPLA Q.J. 136, 139 (1992) (Mr. Manbeck was the Commissioner of Patents and Trademarks from March 12, 1990 to May 1, 1992). In its original proposal to abolish the "reasonable examiner" standard, the PTO was motivated in part at least by the need "to avoid the harsh effects of *A.B. Dick*." 54 Fed. Reg. 11,334 (1989).

[40] See pp. 5 and 23-24 *supra*.

[41] *Molins*, 48 F.3d at 1184 ("burying a particularly material reference in a prior art statement containing a multiplicity of other references can be probative of bad faith"); *Golden Valley Microwave Foods, Inc. v. Weaver Popcorn Co., Inc.*, 837 F. Supp. 1444, 1477 (N.D. Ind. 1992), *aff'd mem.*, 11 F.3d 1072 (Fed. Cir. 1993), *cert. denied*, 511 U.S. 1128 (1994).

[42] Attorney Thomas R. Felger, who did not begin working on Elk's application until October 1, 1992, more than six months after the current version of PTO Rule 56 took effect, is named in both the district court and Federal Circuit decisions in this case. It is not only illogical but also

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same reasons, if a trial court makes such a finding, it should be subject to meaningful appellate review. Under the "important to a reasonable examiner" standard, as applied by the Federal Circuit, a materiality determination by the district court is not only unpredictable, but also essentially unreviewable.[43]

## CONCLUSION

For the foregoing reasons, this Court should issue a writ of certiorari to the U.S. Court of Appeals for the Federal Circuit, and vacate the judgment of the Federal Circuit for failure to apply the standard of "materiality" set forth in PTO Rule 56.

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[42] (...continued)
entirely unfair to judge his conduct under the standards of a rule that no longer existed when he first began working on Elk's application.

[43] *See* Transcript, Appendix G, p. 83a ("wacked out" standard of appellate review).